

**FIFTH ANNUAL REPORT TO CONGRESS  
REGARDING  
THE IMPACT OF THE  
NORTH AMERICAN FREE TRADE AGREEMENT  
UPON  
U.S. AUTOMOTIVE TRADE WITH MEXICO**



**Office of Automotive Affairs**

**International Trade Administration  
U.S. Department of Commerce  
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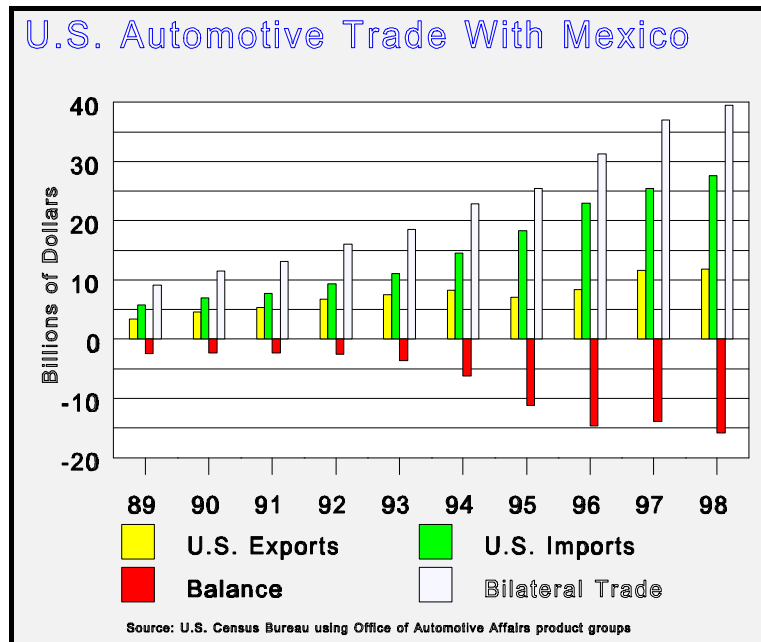


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***FIVE-YEAR SUMMARY***

- Revolutionary industry developments that are affecting the global auto industry make it virtually impossible to isolate the impact of the North American Free Trade Agreement upon U.S. automotive trade with Mexico.
- Automotive shipments between the two countries have risen steeply since the NAFTA was implemented. Bilateral trade increased from \$18.6 billion in 1993 to \$39.5 billion in 1998.
- U.S. exports to Mexico of motor vehicles in 1998 were 14 times greater than in 1993, rising to \$2.4 billion. Exports of parts were 30 percent greater, reaching \$9.5 billion.
- Automotive imports from Mexico increased significantly, responding to an historically strong U.S. domestic market, rising from \$11.1 billion in 1993 to \$27.7 billion in 1998.
- The automotive trade deficit increased from \$3.6 billion in 1993 to \$15.8 billion in 1998.
- While NAFTA is responsible for U.S. automotive exports growing, imports would have risen even in the absence of the agreement, since the U.S. market already was open to Mexico.
- NAFTA is enabling producers to choose the most profitable, efficient allocation of resources among the three countries, free of distortions previously introduced by Mexican regulations.
- Producers are using their Mexican plants to supplement their U.S. production of vehicles in high demand in the United States—especially sport utility vehicles and light trucks. They also are using U.S. output to satisfy Mexican demand.
- In the years since the agreement opened the Mexican market to U.S. products, Mexico has become our second most important international motor vehicle market, trailing only Canada.
- Investment in the automotive sector continues to flow into both the United States and Mexico. Investment in the U.S. auto sector continues to dwarf investment in Mexico.

- U.S. vehicle production increased from 10.9 million units in 1993 to 12 million units in 1998.
- Employment in the U.S. auto industry has grown significantly. Average annual production worker jobs in the vehicle sector were 11 percent greater in 1998 compared with 1993; in the parts sector they were 17 percent greater.



## I. Overview of the Agreement and its Impact

This is the fifth and final annual report mandated by the Congress concerning the impact of the North American Free Trade Agreement upon the bilateral trade in certain automotive products between the United States and Mexico<sup>1</sup>.

Prior to the agreement's entry into force on January 1, 1994, U.S. shipments to Mexico of

automotive products (cars and cargo trucks, assembly and service parts) were severely constrained by Mexican regulations that had served to protect a local automotive industry. In compliance with the agreement, these measures are being reduced in stages according to a rigid schedule. On January 1, 1998, duties were completely eliminated on light trucks and many automotive parts. Duties that remain on medium and heavy trucks, buses and a small number of automotive parts will be removed on January 1, 2003. Most trade measures affecting most automotive products will be completely withdrawn by 2004<sup>2</sup>.

Even though many impediments still face U.S. exporters, progress has been striking. In the five year period preceding the agreement, shipments of automotive products to Mexico totaled \$27.5 billion, of which \$975 million were motor vehicles<sup>3</sup>. In the five years since, and despite a major recession in Mexico in 1995, U.S. exports jumped over 70 percent to a cumulative total of \$47.2 billion, including \$6.6 billion worth of vehicles. Nearly half of the U.S. five-year cumulative total is due to trade in the past two years.

With the exception of 1995, U.S. automotive exports to Mexico increased strongly in every year since 1993. The Mexican government's unexpected decision in late 1994 to free the peso to seek its own level resulted in a sudden increase in the cost of Mexico's imports and severely crippled the Mexican economy. U.S. automotive exports dropped 14 percent in 1995, compared with an 11 percent gain during the first year of the agreement. Nonetheless, they remained just 5 percent below 1993's total. In 1996, U.S. exports grew by 17 percent and topped that the following year by jumping 38 percent. In 1998, automotive exports grew an additional 3 percent, reaching a total of \$11.9 billion.

Automotive imports from Mexico between 1989 and 1993 totaled \$40.8 billion cumulatively, including \$13.4 billion of vehicles. In the 1994-98 period, imports grew to a total of \$108.9 billion. Motor vehicles accounted for \$49.2 billion of the sum. Unlike the situation for U.S. exports, however, much of the increase in U.S. imports is not the result of NAFTA, but rather is the byproduct of earlier Mexican regulations that had required vehicle production in Mexico as a requisite for selling there. The only way that most firms could economically justify such investment was by planning also to export from those new facilities. In fact, the regulations now being eliminated due to NAFTA also required them to do just that.

Moreover, the 1994-98 period coincides with a U.S. motor vehicle market that is unprecedented in its long-term strength. This is the first time in U.S. automotive history that annual sales of at least 15 million cars and light trucks have been achieved in four of five years. Just as in every past year in which there have been strong domestic sales, imports also have been strong. U.S. imports from the world of motor vehicles covered by this report grew 50 percent between 1993 and 1998, rising from \$63 billion (4.6 million units) to \$94.7 billion (5.3 million units).

A growing U.S. motor vehicle market also generates a rising market for imported parts for both the assembly and servicing of those vehicles. Thus, another factor at play is the residual effects of the pre-NAFTA Mexican maquiladora investment program that successfully enticed producers of automotive parts to invest in the Mexican market for export only. Compared with shipments of \$7.4 billion in 1993, imports from Mexico in 1998 grew by 96 percent to \$14.5 billion. Since there were no U.S. barriers to automotive parts imports from Mexico before (or after) NAFTA, this increase likely would have occurred in the absence of the NAFTA.

## **II. U.S. Automotive Market**

1998 sales of light vehicles in the American market substantially exceeded most forecasters' expectations, rising nearly 3 percent for the year to a total of 15.5 million units<sup>4</sup>. 1998 sales of medium and heavy trucks were much higher than initially expected, growing 13 percent to a total of 424,000 units, a new one-year record. The benefits for the U.S. manufacturers of this unprecedented period have been substantial. For example, between 1993 and 1997, the combined global net income of GM, Ford, and Chrysler, all of whom draw most, if not all, of their profits from the U.S. market, totaled \$58.8 billion. 1997 was the best year of the period for the three firms. Net income jumped 27 percent from the previous year, reaching \$16.4 billion. In 1998, GM and Ford reported combined global income of \$7.8 billion. (Following the merger of Chrysler with Daimler Benz, Chrysler's income is now reported as part of the newly formed DaimlerChrysler, a German registered corporation.)

### ***Production***

U.S. production of all classes of motor vehicles in 1998 declined slightly compared to the previous year, dropping just over one percent to 12 million units. Even so, this represents an increase of 10 percent compared with 1993's volume of 10.9 million units. Compared with 1997, U.S. production of passenger cars fell 6 percent to 5.6 million units, mostly the result of a 54-day strike at two of GM's parts plants that eventually closed all but one of General Motors' 25 U.S. vehicle assembly plants. The general shift in consumer preference to sport utility and pickup trucks was also a significant factor in reducing passenger car production. Total light truck production increased by 4 percent, reaching a total of 6.1 million units, the first time that more light trucks than cars were produced in the United States. Medium and heavy truck production grew by 11 percent, reaching a volume of 374,000 units.

The global automotive industry is relentlessly focused upon increasing productivity, both through more efficient assembly processes, and through simplification of the products being assembled. The goal is to increase output without increasing fixed cost investments in plant and equipment. In line with this objective, a large number of overtime hours and additional work crews were scheduled at many U.S. assembly plants throughout 1998 to keep up with customer demand. All but three manufacturers produced at annual rates that exceeded 80 percent of rated capacity, the level that many experts feel is an optimal usage rate for the motor vehicle industry. In fact, industry sources report that during 1998, rates in the United States averaged 86 percent for all passenger car plants and an unsustainable 99

percent for all light truck plants<sup>5</sup>. Combined, the industry averaged 92 percent utilization for the year, compared with 83 percent in 1993.

During 1998, DaimlerChrysler averaged 98 percent overall utilization for its nine U.S. plants. Ford's 16 plants ran at an average of 100 percent of rated capacity. General Motors, suffering the effects of its strike, produced at an 84 percent rate for the year. Honda operates two U.S. assembly plants; they produced at 115 percent of rated capacity. Nissan's single U.S. plant builds cars and trucks on separate lines that, because of weak demand, ran at a combined rate of only 69 percent. For most of 1998, Toyota operated two plants, each with two lines for cars and light trucks<sup>6</sup>. Their combined utilization rate was 97 percent. (Plants operating in the United States by other manufacturers are identified in the endnotes<sup>7</sup>.)

## ***Employment***

Compared with 1993, total direct employment in the auto industry in 1998 was 16 percent greater, averaging 1,156,700 employees for the year<sup>8</sup>. 1998 employment was 0.4 percent lower than 1997, however, due mostly to the GM strike and its ripple effects. Absent that event, the industry's 1998 average employment likely would have been higher. Production worker employment in the vehicle sector was 287,500 in 1998, down 5 percent for the year. Compared with 1993, employment has increased by 11 percent. In the parts sector, production worker employment also fell in 1998, dropping 2 percent to 604,100 workers. Compared with 1993's average of 516,800, 1998's employment was 17 percent higher.

Compensation rates for auto industry production workers remain among the highest in the United States. In 1998, workers in the vehicle sector garnered average hourly earnings (in addition to generous benefits packages) of \$21.08, 56 percent above the national average for all manufacturing industries of \$13.49 (current dollars). In 1993, they averaged \$18.86 per hour, 61 percent greater than the national average of \$11.74. Production workers in the parts sector earned an average of \$16.36 per hour in 1998, 21 percent above average. In 1993, they received \$14.74 per hour, 26 percent above the average.

## ***Industry Developments***

The United States is the leading location for automotive investment according to a 1998 study conducted by the Automotive Parts Manufacturers Association of Canada. The study found that from July 1995 through June 1997, markets receiving the most automotive

investment, in rank order, were the United States, Brazil, India and China. Canada ranked ninth and Mexico tenth. Several all-new automotive facilities have been opened in the United States in the years since the NAFTA was implemented, and many have been identified in earlier editions of this report. Details concerning some of the latest projects are noted below.

### **1998 Activity**

- ! DaimlerChrysler is spending \$1.2 billion for a new vehicle assembly plant in Toledo, Ohio and for renovations of two older facilities in Detroit and Toledo. Construction of the new plant began in 1998 and will be completed in 2000. It may be used to increase production of the current Jeep models produced in Toledo, or for a new vehicle.
- ! In December 1998, Toyota's new plant in Princeton, Indiana, began building full-size pickups. Annual capacity is 150,000 units. 50,000 units of additional capacity is already being added for a new sport utility vehicle. When completed in late 2001, the total investment will be \$1.2 billion and employment will reach 2,300. Toyota's new \$900 million engine plant in Buffalo, West Virginia also started production in late 1998. Employment is expected to total 800.
- ! Nissan's four-year process of transferring U.S. production of its Sentra to Mexico was completed in 1998. Nissan will use the released U.S. capacity to increase output of the higher-valued, higher-volume Altima sedan and for a redesigned pick-up. A new sport utility vehicle is also planned. In 1997, Nissan moved production of Altima engines from Mexico to a new plant in Decherd, Tennessee.
- ! Mercedes expanded its Alabama plant in 1998, adding 15,000 units to its original 65,000 unit capacity for its SUV. An additional \$40 million investment and the hiring of 100 new employees was announced in November 1998.
- ! DaimlerChrysler's Freightliner Corporation committed \$40 million to expand its Gastonia, NC, parts plant in early 1998. Completion is scheduled for 1999.
- ! BMW is investing \$600 million to expand its plant in Spartanburg, SC. This doubling of its existing investment will create a new, sole-source assembly line for BMW's new Sports Activity Vehicle. When construction is completed in 2000, BMW expects to have added 1,000 new jobs at the plant.

- ! DaimlerChrysler (DC) announced in December 1998, a \$100 million investment to expand its 52-year old engine plant in Indianapolis. This follows a \$200 million expansion undertaken in 1996. The firm also will spend \$240 million for new equipment for its Sterling Heights, MI stamping and assembly plant. During the summer of 1998, DC completed a \$500 million expansion of its Kokomo transmission plant. Up to 1,000 additional jobs are planned.
- ! Ford announced in November 1998, that it will transfer sourcing of its motor home chassis product line from its Mexican contractor to a new, independent U.S.-Canadian joint venture operating in Michigan, thereby reducing transportation costs for the finished product. A 200,000 square foot facility will be built and initially will employ 120 workers.
- ! L&W, Inc., announced in October 1998, that it is building a 120,000 sq. ft., \$50 million automobile floor-pan stamping plant in Michigan that will employ 340 workers. Construction should be completed in 1999.
- ! Collins & Aikman, producers of automotive interiors modules, began construction in 1998 of a \$12 million engineering center in Troy, MI. It will employ 180 workers.
- ! GM and Isuzu initiated a \$350 million addition to their Ohio joint venture diesel engine plant in 1998. When completed, 400 new jobs will be created. The plant will produce up to 100,000 engines per year for medium-duty pickup trucks. GM also started construction on a \$500 million gasoline engine plant in Flint, MI. When completed in 2000, it will employ 700 workers. In October, 1998, GM indicated that it expects to spend \$20 billion by 2002 in the United States for these two projects, for at least two new vehicle assembly plants that will replace two out-dated facilities, and for other unnamed projects.

### ***III. The Mexican Automotive Market***

Mexico's GDP grew by 7 percent in real terms during 1997, its highest rate in the post-NAFTA period. In 1998, the economy grew at a more sustainable rate of 4.8 percent. Inflation reached 18 percent and interest rates peaked at about 45 percent. Demand for cars and light trucks in Mexico grew a healthy 42 percent in 1997, and continued to expand in

1998, increasing 32 percent to a total of 643,000 units, the highest level since 1992's peak of 671,000 vehicles<sup>9</sup>. 1998 growth in car sales slowed from 1997's torrid 61 percent rate, but still gained 42 percent for the year, reaching 431,000 units. Light truck sales grew at a more modest but respectable 16 percent rate, down from 1997's 20 percent growth rate, reaching a total of 213,100 units for the year. Commercial truck sales totaled 22,100 units, a one-year gain of 31 percent.

## ***Production***

NAFTA has extended to producers in Mexico the benefits already enjoyed by producers in the United States and Canada under the Canada-U.S. Free Trade Agreement (and before that, the Canada-U.S. Auto Pact). Those earlier agreements enabled producers to centralize production of a given model in a single plant to gain economies of scale, and still enjoy full access to either market.

Manufacturers in Mexico now are cutting down on the number of models they assemble and are beginning to fill out their product lines with imports. Popular models imported from the United States include GM's Cadillac Fleetwood, Chevy Malibu and Grand Prix, and Ford's Sable and Continental. Sport utility vehicles imported from the United States include the Chevy Blazer, Ford Explorer and Jeep Cherokee. U.S.-made pick-up trucks include the Ford Ranger and Chevy S-10. Vehicles from other sources include the VW Pointer (made in Brazil) and Passat (Germany), Nissan Maxima and Infiniti (Japan), GM's Opel Corsa (Spain), and the Ford Fiesta (England).

Production of all classes of vehicles in 1998 was up nearly 8 percent for the year, reaching a total of almost 1.5 million units. Mexico produced 958,000 cars, up 12 percent; 421,000 light trucks, down 5 percent; and 81,000 medium and heavy trucks, up 46 percent. Output for local consumption increased by 27 percent to nearly 477,000 units. Production destined for export grew by just 0.3 percent to 983,000 units. Export production as a share of total output consequently dropped for the third consecutive year, falling to 67 percent, compared with 72 percent in 1997. This reflects both the growth of the domestic Mexican market, as well as the reallocation of production among North American plants.

In 1993, Mexico's light vehicle plant capacity utilization rate averaged 74 percent overall, 9 points lower than in the United States. During 1998, Mexico's light vehicle plants averaged 80 percent overall, 12 points lower than the U.S. average. Light truck plants produced at an

average of 94 percent of capacity in 1998, five points below similar plants in the United States. Mexican automobile factory output averaged 75 percent of rated capacity, 11 points lower than U.S. car plants.

DaimlerChrysler has one car and two truck plants in Mexico. They ran at an overall rate of 93 percent for the year. Ford operates two plants, one with 2 separate lines producing cars and light trucks, and the second plant producing only cars. Combined, the two plants averaged 50 percent utilization, primarily the result of low demand in the U.S. market for the models produced there. (Ford's U.S. plants where these models also are assembled exceeded 70 percent utilization.) General Motors has one car and one truck plant in Mexico. They ran at a combined rate of 104 percent of rated capacity in 1998.

Volkswagen's single car plant operated at 93 percent of rated capacity. Nissan's plant produces cars and light trucks on separate lines. Overall, the plant ran at 64 percent of rated capacity. BMW, Honda, and Mercedes operate low volume plants that assemble just a few thousand vehicles per year. BMW ran at 50 percent of capacity; Honda at 49 percent; and Mercedes at 19 percent.

## ***Employment***

Employment in the Mexican vehicle assembly industry (Mexican sector classification 56) was 47,700 in 1998, compared with 46,300 in 1997 and 60,000 in 1993<sup>10</sup>. Employment has risen steadily from the 1995 peso-crisis induced trough of 41,800, but industry forecasts do not project full recovery for several more years. Employment in the parts industry (sector 57) totaled 258,000 in 1993. It dipped only slightly to 253,000 in 1995 on the heels of the peso crisis, a reflection of the export orientation that predominates among the large producers. Employment reached 298,000 in 1997 and grew to 311,000 in 1998.

Mexican pay rates in the auto industry remain far below those in the United States. In 1998, after rising 1 percent in real (peso) terms, per capita income was about \$4,000. Employees in the vehicle assembly sector received an 11 percent real increase in 1998, earning an average of \$12,500 per year, in addition to receiving several side benefits, often including free or subsidized meals and subsidized housing. Workers in the parts sector continued to be paid at a much lower rate than those in the vehicle sector. Their salaries increased 10 percent in real terms in 1998, earning them the equivalent of \$6,400 per year. Salary increases in both sectors for the next several years are expected to average 3 percent per year in real terms.

## ***Industry Developments***

International competition and the drive to create global sourcing is affecting not only the vehicle assemblers operating in Mexico, but also the parts manufacturers. All assemblers are striving to reduce the number of suppliers with whom they directly interact. In response, major suppliers are developing broader product lines, some by funding new capabilities for themselves and some by subcontracting, but most by buying other firms. NAFTA is unshackling Mexico's export-focused, foreign-owned maquiladora plants, allowing them to sell into the domestic Mexican market, greatly increasing local competition. The larger suppliers also can obtain more favorable credit in the international marketplace, while the many smaller parts suppliers are having difficulty accessing credit at reasonable rates because of the more intense competition they now face.

The Mexican parts industry is just starting to grow in the international marketplace. Data supplied by Mexico to the United Nations indicates that its 1993 exports of automotive parts (as defined by the USDOC's Office of Automotive Affairs) to the United States totaled \$4.6 billion. Shipments to the rest of the world were \$850 million. UN data shows that in 1997, Mexican shipments to the United States increased to \$11 billion. Shipments to the rest of the world also grew, reaching \$900 million.

### ***1998 Activity***

- ! Honda de Mexico announced in early 1998 a \$5 million investment to add an engine assembly line with an annual capacity of 10,000 units. The vehicle assembly line produced 7,200 Accords and Civics in 1998.
- ! Volvo-Mexico acquired Mexicana de Autobuses in October, 1998 for \$150 million. MASA is Mexico's second largest bus and motor coach builder. Volvo will continue bus production. (Volvo, the world's fourth largest heavy truck producer, has one heavy truck plant in Virginia. Reportedly, Volvo has near-term plans to make its U.S. plant the firm's largest facility with an annual capacity of 50,000 units.)
- ! GM committed \$20 million in 1998 to build a 55,000 square foot vehicle prototype design center at its Toluca complex. When completed, it will employ 250 engineers

working on projects for the entire corporation.

- ! Chrysler Corporation and Mercedes Benz merged in November, 1998. The new entity, DaimlerChrysler (DC), was credited with sufficient Mexican exports under Chrysler's account to enable it to cease local Mexican assembly of some 1,000 Mercedes cars. They will be replaced with imports from Germany and the United States.
- ! Freightliner, a U.S. truck producer owned by Daimler Benz (now DC), added 1,000 employees to its Mexico plant in 1998 and will increase capacity from 12,000 to 16,500 units annually. The firm will double Class 8 (tractor-truck) output, sending 4,000 units to the United States to help meet U.S. demand. Freightliner's four U.S. plants are now operating at full capacity.
- ! In late 1998, Johnson Controls, Inc., formed a joint venture with Varta AG and Grupo Isma SA to produce automotive batteries. The JV combines 10 manufacturing plants with annual capacity of 23 million units. Plants are in Mexico and South America.
- ! Navistar International began operations at a new \$170 million assembly plant near Monterrey in April 1998. The company will build three Class 6-8 truck models, as well as buses, using engines shipped from its plant in Illinois, and body stampings (cab assemblies) from its Ohio plant. Monterrey primarily will serve the Mexican and Latin American markets. However, Navistar's single U.S. truck assembly plant is now running at maximum capacity, so Mexican output also may be shipped north.
- ! Mexican truck and bus producer, DINA, announced in October 1998, that it is planning to move its headquarters to the United States by mid-1999. Burdened with \$700 million of debt, the firm hopes to raise additional capital by transferring listing of its shares from the Mexican stock exchange to New York. It intends to remain registered as a Mexican company. DINA expects to begin exporting its new truck line to the United States in mid-1999.
- ! Sachs Automotive, a major German-registered supplier of driveline components, announced in September 1998 that it will invest \$70 million to build a transmission components factory in Ramos Arizpe. The plant will employ 300 persons.
- ! Cooper Tire & Rubber is expanding its existing plant in Piedras Negras, investing \$17 million to double output of molded rubber vibration control products. The expansion should be completed by mid-1999.
- ! DaimlerChrysler completed a 3-year, \$170 million project in 1998 that adds a metal

stamping facility to its pickup truck plant in Saltillo. It will employ 400 persons, and is part of a planned \$1.5 billion commitment to revamp its Mexican operations by 2002.

- ! Ford has committed \$1 billion to expand assembly operations in Mexico over the course of the next few years. The first project, \$95 million for new machinery for its Cuautitlan truck plant, will be finished in mid-1999.

#### ***IV. U.S. Automotive Trade with Mexico***

Between 1993 and 1998 the automotive bilateral trade deficit with Mexico grew substantially in current dollar terms, rising from \$3.6 billion to \$15.8 billion. The auto parts component of the deficit jumped from \$37 million in 1993 to nearly \$5 billion in 1998, while the vehicle deficit has gone from \$3.6 billion to \$10.8 billion. Total bilateral trade has more than doubled between 1993 and 1998, rising from \$18.6 billion to \$39.5 billion. Between 1989 and 1993, bilateral trade totaled \$68.3 billion on a cumulative basis, while in the 1994-98 period it reached a cumulative total of \$156 billion.

Prior to implementation of NAFTA, Mexico enjoyed nearly unlimited access to the U.S. market. It benefitted from zero duties on a majority of automotive parts under the Generalized System of Preferences (GSP). Duties on passenger cars were just 2.5 percent. Cab-chassis truck units were charged 4 percent. (Duties on pick-ups and larger trucks, however, were 25 percent.) The United States had no quotas restricting shipments to the United States, no local content requirements, and no demands for production in the United States as a condition for selling here.

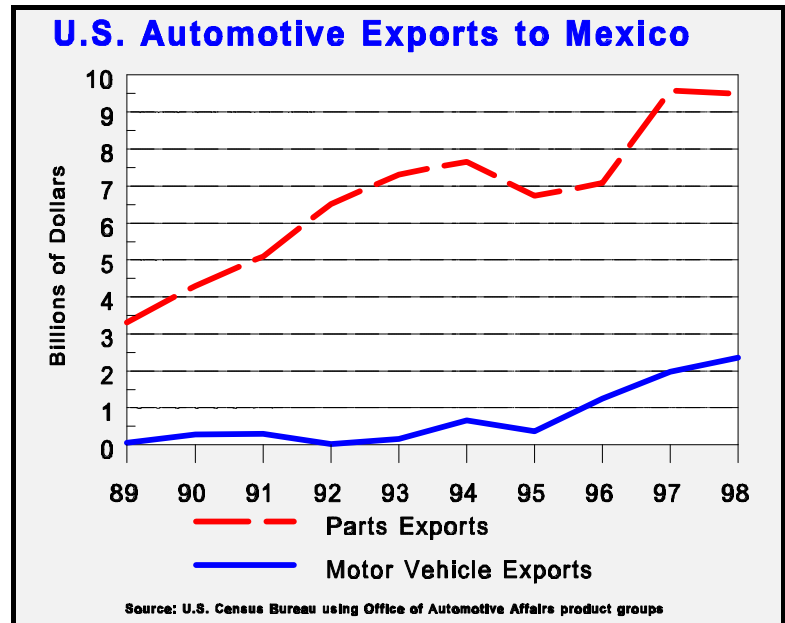
On the other hand, U.S. firms had to produce in Mexico in order to export there, and even then companies were faced with stiff quotas, as well as trade balancing and local content requirements. Mexican import duties ranged from 10-20 percent for all products. As a result of NAFTA, Mexico's restrictive provisions are being eliminated according to an agreed, rigid schedule. It is certain that without NAFTA, U.S. exports of motor vehicles to Mexico would not have been 14 times larger in 1998 than they were in 1993, nor is it likely that in 1995 a period of deep recession in Mexico they would have been 2.3 times larger than they were in 1993.

#### ***U.S. Exports to Mexico***

Automotive exports to Mexico during 1998 totaled \$11.9 billion, 59 percent higher than in

1993, and 3 percent greater than 1997. Shipments of automotive parts declined slightly, while exports of motor vehicles increased significantly.

**Parts:** U.S. auto parts exports to Mexico in 1998 were 30 percent greater than in 1993, reaching \$9.5 billion. Compared with 1997, exports dipped 0.8 percent. In contrast, U.S. automotive parts exports to the rest of the world in 1998 were up 0.3 percent for the year, totaling \$46.8 billion. Shipments to Mexico accounted for 20 percent of all U.S. parts exports in 1998, while in 1993, Mexico was 22 percent of the total.



Four of six categories of U.S. automotive parts exports to Mexico monitored by the Office of Automotive Affairs increased during 1998. Shipments of tires and tubes continued their uninterrupted growth, jumping 37 percent. After falling the year before, exports of miscellaneous parts increased by 23 percent. Electrical and electronic parts gained 9 percent. Shipments of bodies and parts scratched out a 0.9 percent gain. Engine and parts exports dropped 21 percent. Shipments of chassis and drivetrain parts fell by 27 percent.

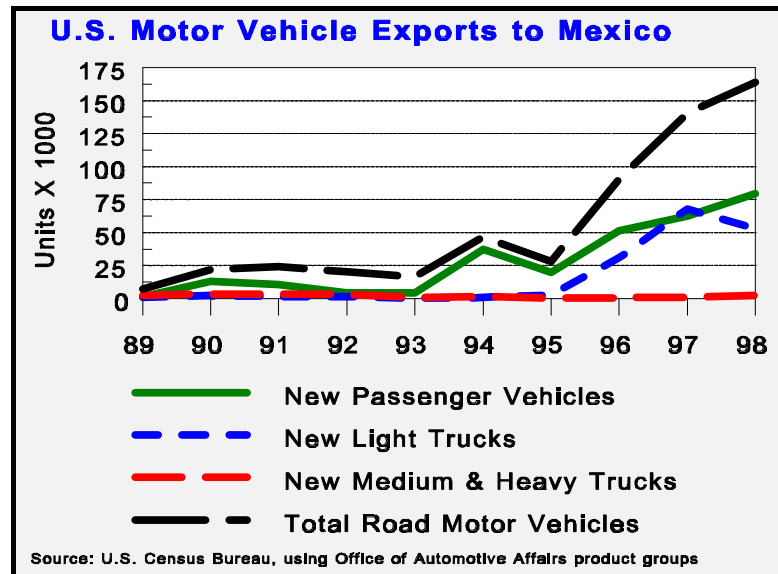
Automotive Parts Exports to Mexico (Millions of Current Dollars)							
	1992	1993	1994	1995	1996	1997	1998
Total Exports	6,514.6	7,316.8	7,662.8	6,736.6	7,078.4	9,582.1	9,501.6
Engines & Parts	614.8	612.1	821.6	874.7	753.0	1,128.2	896.2
Bodies & Parts	2,295.1	2,655.3	2,397.3	2,179.4	1,881.0	2,643.8	2,669.9
Chassis & Drivetrain Parts	810.2	894.9	951.4	755.9	960.2	2,107.5	1,534.2
Electric & Electronic Parts	1,203.4	1,567.0	1,353.2	1,059.1	1,259.0	1,577.2	1,719.3
Tires & Tubes	166.0	182.5	178.6	195.2	266.7	490.8	671.0
Miscellaneous Parts	1,425.1	1,405.0	1,960.7	1,672.3	1,958.5	1,634.6	2,011.0

### Automotive Parts Exports to Mexico (Millions of Current Dollars)

Source: U.S. Census Bureau, using Office of Automotive Affairs product groups

Mexico consistently has been the U.S. parts industry's second largest export market after Canada, and is one of the few motor vehicle markets with excellent mid-term growth potential. Consequently, as domestic production expands, it is likely that Mexico will continue to be an extremely important export market for U.S. parts suppliers. Moreover, with an increasing number of new and used U.S.-made vehicles being sold in Mexico, the

opportunities for U.S.-made service parts and accessories also should increase strongly<sup>11</sup>.



**Vehicles:** In 1993, U.S. shipments of road motor vehicles to our second largest market, Germany, totaled \$915 million—more than five times larger than U.S. exports to Mexico. By 1997 the relationship had reversed—shipments to Mexico (\$1.978 billion) were 67 percent larger than the total

going to Germany. In 1998, shipments to Mexico (\$2.363 billion) were 75 percent larger. In other words, since 1993 shipments to Mexico of U.S. produced motor vehicles have risen by a factor of 14, while those destined for Germany have increased by less than half.

In unit terms, motor vehicle exports to Mexico in 1998 increased 16 percent compared with 1997, reaching a total of 164,000 vehicles. This volume is nearly 10 times larger than the total shipped to Mexico in 1993.

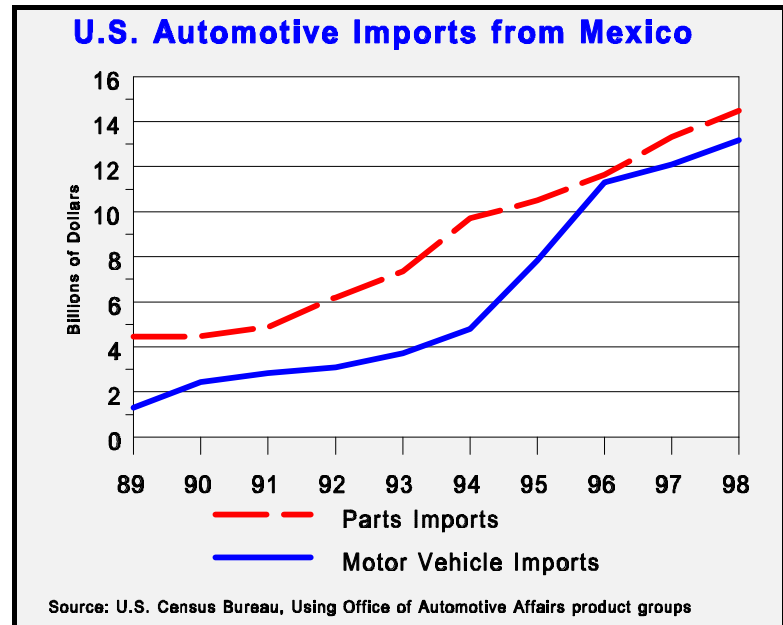
During 1998, total U.S. shipments of road motor vehicles to all countries excluding Mexico fell 6 percent to \$22 billion. In fact, of our 10 largest markets in 1998, exports grew to only two other countries besides Germany<sup>12</sup>. Looked at another way, the value of vehicle shipments to Mexico were 10 percent of all U.S. exports of motor vehicles in 1998, an increase of two percentage points from the previous year. In 1993, exports to Mexico were less than one percent of the \$18.9 billion total that U.S. suppliers shipped abroad.

These results clearly indicate the growing importance of Mexico to U.S. exporters, as well as underlining the importance of NAFTA in removing Mexican import barriers.

### ***U.S. Imports from Mexico***

Total U.S. automotive imports from Mexico grew from \$25.4 billion in 1997 to \$27.7 billion in 1998, a 9 percent increase.

Imports in 1998 were 2.5 times larger than 1993. The growth rate for both parts and motor vehicle imports were nearly identical in 1998, unlike 1997 when parts imports grew twice as fast.



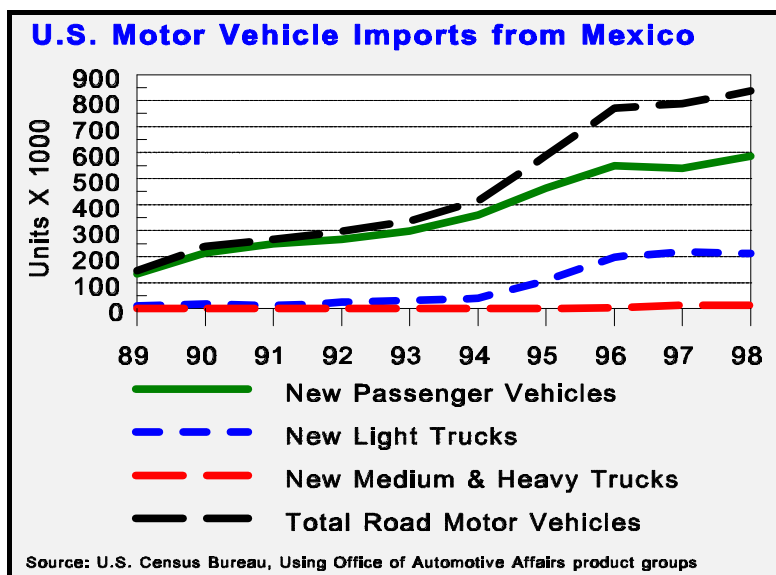
**Parts:** U.S. imports from Mexico increased from \$13.3 billion in 1997 to \$14.5 billion in 1998, a gain of 9 percent. The peso devaluation of 1994-95, while disastrous for the local economy and especially for the motor vehicle market, helped to improve the price competitiveness of Mexican auto parts on the international market. This factor, coupled with the global industry trend to source more parts from fewer suppliers, coupled with steady growth in motor vehicle production in the United States, has produced strong demand for auto parts from Mexico.

Five out of six import parts categories increased, with shipments of chassis and drivetrain parts accounting for the largest percentage increase at 37 percent, but the third lowest value. Imports of tires and tubes were up 16 percent, while bodies and parts increased 13 percent and engines and parts, 4 percent. Imports of miscellaneous parts fell 7 percent.

Automotive Parts Imports from Mexico (Millions of Current Dollars)							
	1992	1993	1994	1995	1996	1997	1998
Total Imports	6,201.0	7,353.0	9,699.5	10,497.8	11,644.7	13,314.4	14,474.6
Engines & Parts	830.4	936.7	1,498.3	1,775.8	1,891.9	2,004.9	2,086.3

Automotive Parts Imports from Mexico (Millions of Current Dollars)							
Bodies & Parts	1,502.4	1,876.8	2,312.3	2,147.8	2,514.7	3,077.4	3,471.5
Chassis & Drivetrain Parts	474.0	506.6	682.6	781.7	810.3	936.3	1,280.1
Electric & Drivetrain Parts	2,819.1	3,374.6	4,645.2	5,037.0	5,588.8	6,558.0	6,922.4
Tires & Tubes	23.7	33.0	47.9	88.9	93.5	117.8	136.6
Miscellaneous Parts	551.4	625.3	515.3	666.6	745.5	620.0	577.7

Source: U.S. Census Bureau using Office of Automotive Affairs product groups.



Mexican parts imports in 1998 were 27 percent of the total dollar value of all U.S. parts imports, compared with a 26 percent share in 1997. Mexico displaced Japan in 1997 as the second largest source of U.S. parts imports, and increased its lead in 1998. Shipments were 13 percent larger than those of Japan in 1997, 22 percent larger in 1998. Canada just barely remained our number one parts supplier, with 1998 shipments

of \$14.7 billion.

**Motor Vehicles:** Imports from Mexico of road motor vehicles, mostly from long-established GM, Ford, and DaimlerChrysler plants, totaled \$13.2 billion in 1998, up 9 percent from the previous year. In 1993, imports from Mexico were \$3.7 billion. In unit terms, vehicles imports reached 837,000 units in 1998, 6 percent greater than in 1997 and almost 2.5 times greater than in 1993.

Of eight road motor vehicle categories regularly tracked by the Office of Automotive Affairs, the one that grew fastest in 1998, but not shown in the chart, was used passenger vehicles. Imports jumped nearly 600 percent to a total of \$20.8 million. Imports of new passenger vehicles (including sport utilities) continued to grow, increasing 11 percent to \$9.1 billion. Light truck imports (including pickups) fell 3 percent to \$3.3 billion, while

medium and heavy truck imports jumped 62 percent, reaching a total of \$399 million.

In dollar terms, the Mexican share of total U.S. motor vehicle imports was 13.9 percent in 1998, a one-tenth point increase from 1997. Mexico is the third largest exporter of vehicles to the United States, overtaking Germany in 1995, but remains well distant from Japan's \$25.3 billion, second place ranking. Mexico's shipments were 52 percent of Japan's in 1998, and 35 percent of Canada's. In 1993, Mexico's total was equal to just 16 percent of Japan's, and just 14 percent of Canada's.

## ***V. 1999 and Beyond***

Except for the temporary set back caused by Mexico's 1995 peso crisis, its economy has responded well to the reduction in internal regulations and to the opening of its borders to increased competition from U.S. and Canadian firms. The U.S. economy also has continued to grow strongly. For 1999, real GDP growth of around three percent is expected for Mexico and four percent for the United States. Prospects for next several years also remain favorable for both countries.

On January 1, 1999, Mexico removed its trade regulations covering the sale and manufacture of autotransportation vehicles (buses, medium and heavy trucks; vehicles weighing over 8,864 kilograms) in accordance with the NAFTA. When the agreement came into force, Mexico was allowed to introduce two quotas affecting manufacturers of autotransportation vehicles. One quota was reserved for assemblers in Mexico; the other was for non-Mexican assemblers. To qualify for the Mexican assembler's quota, a local manufacturer had to meet certain value-added and trade balancing requirements. Now that this quota system has expired, imports of these types of commercial vehicles from the United States will no longer be restricted. Duties remaining on these vehicles will be removed on January 1, 2003.

On January 1, 2001, Mexico is required to start collecting and retaining customs duties from the maquiladoras on their imports from outside NAFTA of all materials that will be incorporated into products that will be exported to the United States or to Canada. In addition, some Mexican state governments reportedly are moving to increase payroll taxes. These actions, depending upon the levels imposed, could discourage further expansion of the maquiladora industry.

In the years before NAFTA, the majority of bilateral trade between the United States and Mexico was primarily intra-company shipments by GM, Ford, Chrysler, and by independent parts suppliers. Strong demand for six car and two light truck models made only in Mexico continued to support U.S. import growth in 1998. In addition, Mexican plants help supply 10 other models that are built in both countries. The market's appetite for sport utility vehicles produced by DaimlerChrysler, Ford, and GM has been over-whelming the manufacturers' abilities to keep up over the short term. Plants in Mexico have helped to fill that demand and to limit retail price increases.

An increasing amount of trade also is being conducted by Nissan and VW, and by heavy-truck makers Navistar, Paccar, and Freightliner. VW's plant in Mexico will continue to ship the new Beetle, as well as the Jetta to the United States, where they are proving to be popular with the American consumer. Both would have been produced in Mexico whether or not NAFTA existed. Nissan transferred Sentra production from its U.S. plant to Mexico in 1998, and will now export them to the United States. On the other hand, Nissan will ship its newly introduced truck and sport utility vehicle from its Tennessee vehicle plant to Mexico, as well as their U.S. sourced maintenance and repair parts. Prior to the NAFTA, Mexico's regulations probably would have rendered this course of action infeasible.

### ***U.S. Automotive Market***

1999 probably will produce four consecutive years of annual domestic sales of light motor vehicles above 15-million units, as well as a second consecutive record year for commercial truck sales. In the first quarter, sales of medium/heavy trucks rose a stunning 29 percent, compared with the same period last year, reaching a volume of 120,000 units. The light vehicle market also is in high gear, posting nearly an 11 percent sales gain during the first 3 months, reaching a total of 3.9 million cars and light trucks. Usually, the first quarter is the weakest, so it suggests that the full year will be outstanding.

Most manufacturers had anticipated a flat 1999 market. All seem surprised by the market's strength and many now are beginning to wonder if we are headed for the best year in history, one that would top 1986's record of 16 million cars and light trucks. In any event, annual sales of at least 15.8 million units seem certain. Even so, the long-range forecast for light vehicle sales in the United States remains one of modest growth, averaging one or two percent per year at most.

U.S. production of light motor vehicles in the first quarter of 1999 increased by 6.5 percent, compared with the same previous quarter, reaching a total of 3.2 million units. Car production has started to recover from last year's full year decline, growing by 1.5 percent during the first quarter to 1.44 million units. Light truck assembly continued its relentless growth, jumping 11 percent to a volume of 1.8 million units. Production of medium and heavy trucks also continued unabated, expanding by 18 percent for the quarter to a total of 99,000 vehicles.

### **1999 Activity**

- ! Following the February 1999, power plant explosion at Ford's Rouge plant in Dearborn, the company reaffirmed its commitment to refurbish the complex, including the paint and body shops, a \$2 billion project that was initially announced in October, 1997. Work should be completed by 2000. New products may include a sport utility vehicle and a redesigned Mustang. Ford also is expanding its Louisville, Kentucky truck plant by approximately 50,000 units to increase production of its pickup truck lines.
- ! In May 1999, GM completed the divestiture of its Delphi parts division, forming an independent entity that will be the nation's 36<sup>th</sup> largest company, based on 1998 revenues of \$28.5 billion. Delphi is now the largest maquiladora employer in Mexico, having 50 plants and 72,000 workers.
- ! In April 1999, GM confirmed it will spend \$457 million to expand its Arlington, TX truck plant that produces sport utility vehicles and full-size pickups. When finished, 500 new jobs will be created. Construction will be completed by mid-2000.
- ! GM announced in May 1999 that it will build a \$250 million truck transmission plant in Baltimore. Construction will start this summer and end in 2001. It will employ 470 workers, and is the first new, heavy manufacturing plant to locate in Maryland in the past 30 years.
- ! DaimlerChrysler announced in May 1999 a \$435 million investment to upgrade its St. Louis North pickup truck plant. St. Louis North was converted four years ago from minivans to pickups. Completion is targeted for January 2001.

- ! Honda announced in May 1999 that it will erect a new \$400 million vehicle assembly plant and engine facility near Birmingham, AL. The plant will build minivans and probably a sport utility, Honda's first, starting in the spring of 2002. Capacity is 120,000 vehicles and 120,000 engines per year. When operational, employment is expected to reach 1,500. Honda also will spend \$30 million to increase its Ohio engine plant capacity by 100,000 units to a total of 1 million engines per year.
- ! In February 1999, Toyota began construction of an \$85 million international parts distribution center in Hebron, KY. When completed in mid-2000, it will employ 370 and cover 843,000 square feet, making it Toyota's largest such facility anywhere in the world. In April, Toyota announced an additional \$15 million investment to expand its Erlanger, KY, North American manufacturing operations headquarters office.

### ***Mexican Automotive Market***

Car and light truck sales dropped 9 percent in the first quarter compared with the same period last year, falling to 138,000 units. Mexico began collecting the full amount of its motor vehicle sales tax (ranging from 2.5 percent to 17 percent, depending upon sticker price) at the start of 1999. The tax was eliminated in 1995 after the peso crash and was collected last year at 75 percent of the scheduled rate. Reimposition of the entire tax probably pulled sales into the last quarter of 1998, reducing demand in the first quarter of this year. Nonetheless, an improving Mexican economy, combined with a more stable exchange rate, reduced inflation, lower-cost consumer financing, increasing income and pent-up demand, continue to argue for sales growth of at least 6 percent for the full year, according to some industry analysts. These forecasters see growth of 5 percent per annum for the next several years; in fact, for as long as Mexico's economy continues stable growth.

During the first quarter of 1999, passenger car production for both domestic and export sales gained nearly 8 percent, rising to 253,000 units, while light truck production fell 15 percent to 92,000 units. Commercial truck output jumped 20 percent to a total of 23,000 units, in good part a reflection of new investment by Navistar and Freightliner. Production of all vehicles for the local market dropped 22 percent in the first quarter to 94,000 units. Production for export was up 14 percent, reaching nearly 274,000 units.

### ***1999 Activity***

- ! Castech SA opened a new \$35 million aluminum foundry in Saltillo in March 1999 to serve GM's Canadian engine factory in St. Catharines. The plant can produce 750,000 cylinder heads annually.
- ! Eaton Corporation committed \$100 million in June 1999 for a heavy truck transmission plant at an unidentified site in Mexico. Construction will begin this year and take 5 years to complete. The plant will employ about 400 workers.
- ! LucasVarity Automotive, a producer of electronic components and brake systems, began construction in early 1999 of an \$8 million brake plant in Queretaro to replace its existing facility. When completed in October, the new plant will employ 360 workers.

### ***U.S. Trade with Mexico***

U.S. exports to Mexico of automotive parts declined by 18 percent in the first quarter of 1999 compared with the same quarter of 1998, falling to \$2 billion. All major categories lost ground, led by a 37 percent drop in chassis and drivetrain parts. In comparison, exports to the rest of the world of all categories increased by 1 percent to a total of \$10.3 billion. Imports from Mexico of automotive parts grew by 11 percent during the first quarter, reaching a total of \$4 billion. Tire and tube imports gained the most, 34 percent. U.S. imports from the rest of the world of all categories increased by 9 percent over the same period, to a total of \$10.8 billion.

Road motor vehicle shipments to Mexico in the first three months of this year were off 15 percent, slipping to \$673 million. Light truck shipments fell by 87 percent, dropping to \$44 million. Medium and heavy truck exports retreated by 30 percent, falling to \$10.5 million. Shipments of new passenger vehicles increased by 40 percent, reaching \$590 million. Compared with passenger vehicle exports to the rest of the world, this was an outstanding result. Shipments to the world during the first quarter were up 0.1 percent. Exclude Mexico, and shipments to the rest of the world declined by 5 percent.

Total imports of road motor vehicles from Mexico in the first quarter of 1999 grew by 17 percent, reaching \$3.6 billion. Imports from Canada increased 28 percent to \$12.1 billion. Imports from the rest of the world also grew at a 17 percent rate during the quarter (increasing to \$12.4 billion), providing evidence that the burgeoning U.S. market is the primary cause of imports rising from Mexico.

Imports from Mexico of new passenger vehicles in the first quarter of 1999, grew 7.5 percent to \$2.34 billion. Light truck imports increased 8 percent to \$850 million. Demand in the United States for road tractors used to pull cargo trailers, as well as for straight chassis cargo trucks has been unprecedented, taxing existing facilities beyond capacity. Newly installed and expanded facilities in Mexico are being used to help satisfy that demand. In the first quarter of 1999, U.S. imports of medium and heavy truck increased nearly 10-fold from a relatively small base, reaching \$273 million.

## **VI. Conclusion**

It remains difficult to separate the impact of NAFTA from the ongoing rationalization of production in the North American market (which began in the late 1970's and early 1980's), or to separate the impact of NAFTA from other economic developments (such as the severe recession in the Mexican economy in late 1994, and the ongoing banner years for U.S. sales and production) that have occurred since NAFTA was enacted.

Further complicating any such dissection is the ongoing consolidation that is taking place throughout the global automotive industry. This includes such recent developments as Chrysler's and Daimler Benz's \$40 billion acquisition/merger in November 1998, followed in rapid succession by Ford's \$6.5 billion acquisition of Volvo, Renault's \$5.4 billion payout for 37 percent of the stock and controlling interest in Nissan Motors and Nissan Diesel, and GM's increased equity in Suzuki and Isuzu, as well as its pending absorption of Saab. Some observers believe that the 50 major car and truck producers scattered around the world today will eventually—and not too far into the future—be consolidated into no more than 5 to 10 global entities.

Similar consolidation is occurring in the parts industry. Earlier this year Lear Corporation paid \$2.3 billion for United Technology's automotive subsidiary, while TRW acquired Lucas Varity PLC for \$6.5 billion. The latter had been formed just two years earlier through the \$4.8 billion merger of the British firm, Lucas Electric, and the American company, Varity. In fact, the speed of consolidation in the parts sector is increasing. In the first quarter of 1998, Automotive News reports that there were 32 mergers with a combined value of \$2.5 billion, but in the first quarter of 1999, 82 deals were consummated involving U.S. firms, worth a collective \$13.7 billion. Many industry forecasters agree that today's global parts industry of 1,000 first-tier suppliers (those that work directly with the vehicle producers) will soon number no more than 25. Others predict just half of that.

A major force driving the consolidation and restructuring of the parts industry is the decision of vehicle producers to shift more of the burden for the engineering and the production of complete component modules onto their suppliers' shoulders, while demanding that the supply of those modules be delivered *just in time* to the vehicle assembly line. Consequently, just as a vehicle producer's site selection process is driven by a desire to be as close as possible to its major markets, so too are many parts suppliers being driven to locate plants next to their customers, the assemblers.

But there are other factors at play in the ongoing, global restructuring of the auto industry. Manufacturers constantly scrutinize production costs from every angle and reduce them however possible. Consequently, globally strategic advantages offered by one country in close juxtaposition to another are carefully considered. The United States continues to be a competitive production location as demonstrated by its rank as the top location for auto investment. Nonetheless, sourcing from lower manufacturing-cost countries such as Mexico also has advantages. If a country also offers preferential access to another attractive market, it becomes an even more viable prospect.

For example, Mexican automotive products now enter Chile duty-free under a recent bilateral agreement, while exports from the United States to Chile face a 10 percent duty. In addition, Mexico has agreements with four other Central and South American countries that have eliminated or reduced tariffs which ranged from 10 to 15 percent on auto parts and up to 35 percent on complete vehicles<sup>13</sup>. Moreover, Mexico continues to actively pursue preferential trade agreements throughout the Western Hemisphere. It also is actively negotiating a free trade agreement with the European Union that could be in place by 2000. As the number of its preferential trade agreements increase, Mexico's attractiveness as a manufacturing location may increase all other factors remaining the same. This trend is not likely to change, and it likely would have emerged regardless of implementation of the NAFTA.

It is noteworthy that U.S. exports of motor vehicles to Mexico continue to be substantially higher now than before the NAFTA. Increased exports of new vehicles are a direct result of NAFTA-mandated reductions in Mexican trade balancing and local content requirements, combined with the consolidation of plant resources which NAFTA enables. Also playing a role is the elimination of cross-border tariffs, and the strengthening Mexican economy which itself is in part a result of the overall increase in trade with the United States and Canada. In coming years, U.S. producers of motor vehicle replacement parts also should benefit from the growing number of U.S.-made models that now are being sold in Mexico.

Employment in the U.S. auto industry in particular, and throughout the entire U.S. economy in general, has risen significantly since the NAFTA. Moreover, the American consumer has benefitted from relatively stable prices, even as U.S. sales of motor vehicles have risen sharply and unexpectedly, a condition that usually results in equally sharp increases in the cost of goods.

In conclusion, the benefits achieved so far by the NAFTA in expanding U.S. automotive trade with Mexico have been significant. Not to have seized the opportunity to remove Mexico's trade distorting practices would have resulted in a continuation of a trade relationship characterized by very unbalanced market access. Imports would have entered the United States regardless, some product sourcing would have been shifted to Mexico in any event, and the Mexican government would have continued to seek free trade agreements with other nations in order to improve its economic prospects, whether or not the NAFTA was completed.

## **ENDNOTES**

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1. Section 514 of the NAFTA Implementation Act, PL 103-182.

2. See the appendix for a complete summary of NAFTA provisions relevant to the auto sector.

3. All bilateral trade data is extracted from U.S. Department of Commerce's Census Bureau database using the Office of Automotive Affairs' groupings of automotive products. Total Exports valued F.A.S., current dollars. General Imports are U.S. Customs value, current dollars. Most values and growth rates throughout this report have been rounded for the convenience of the reader. Motor vehicles covered here include road-licensed passenger vehicles (cars, station wagons, vans and sport utility vehicles); light trucks (primarily, but not exclusively pickups); buses; medium and heavy straight trucks used for the transport of goods, as well as on-road truck tractors for pulling freight trailers; ambulances; used passenger vehicles; and used truck tractors. Off-road construction machinery, mobile cranes, street cleaners and other special-purpose vehicles are not included in the data published in this report.

4. For additional commentary regarding light vehicle sales, production, industry developments, and trends in the United States, see *The Road Ahead for the U.S. Auto Industry, March 1999*.<sup>@</sup> The report can be accessed through the Office of Automotive Affairs internet homepage at <http://www.ita.doc.gov/auto>.

5. All capacity use data was derived from data published by AutoFacts International; the Automotive News

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Data Book; and the WEFA Automotive Group.

6. One of Toyota's vehicle assembly plants is a joint venture with GM in California; its total output is counted here. Toyota opened a third facility, in Indiana, in December, 1998. The plant's start-up output of full-size pickup trucks is not included.

7. BMW and Mercedes Benz established U.S. plants after NAFTA was formed. BMW's car plant ran at 65 percent of capacity in 1998; Mercedes light truck plant operated at 95 percent. Subaru and Isuzu operate a car and truck joint venture that ran at 103 percent. Ford and Mazda's joint venture car plant produced at 94 percent capacity. Mitsubishi's car plant ran at 66 percent.

8. Represented by Standard Industrial Classifications 3465, 3592, 3691, 3694, and 3714 for the parts sector; 3711 and 3713 for the vehicle sector. Data aggregated from U.S. Department of Labor/BLS *National Employment, Hours, and Earnings Report*. BLS data is an average of the 12 months in each calendar year. Wage data is expressed in current dollars, using an employment-weighted average for each sector.

9. Most production and sales data throughout this report are derived from various issues of *Ward's Automotive Reports*. In most instances, values and volumes have been rounded for convenience. Mexican data published by Ward's is collected from AMIA and ANPACT, the major Mexican vehicle associations.

10. Information for this section was derived from data published by Grupo CIMEX- WEFA in *Perspectivas Economicas de la Industria Automotriz*, Vol. XX, March, 1999.

11. Used motor vehicles are currently allowed only into certain border and tourism zones. Full access to Mexico's used vehicle market does not occur until 2019.

12. 1998 Top-10 motor vehicle export markets in descending order: Canada, Mexico, Germany, Japan, Saudi Arabia, Belgium, Great Britain, Australia, Kuwait, and Taiwan. Besides Mexico and Germany, exports increased to Saudi Arabia, which gained 5 percent to \$852 million; and to Great Britain, up 58 percent to \$550 million. Exports to the others declined, including shipments to Canada, which fell 4 percent to \$13.9 billion.

13. Duty free access to Chile is subject to a rule of origin. However, there is a quota for vehicles not meeting the rule of origin that can be shipped between the two countries at preferential rates. Mexico's agreement with Costa Rica allowed duty-free access for truck-tractors in 1995; other duties on automotive products will be eliminated in 2004. Automotive products will be totally duty-free into Bolivia in 2002 and duty-free into Colombia and Venezuela as of January 1, 2007. Negotiations with the European Union for reduced or duty-free trade are now in progress.